NORTHERN ILLINOIS GAS COMPANY
D/B/A NICOR GAS COMPANY
DIRECT TESTIMONY OF
ALBERT E. HARMS
ILLINOIS COMMERCE COMMISSION
DOCKET NOS. 00-0620 and 00-0621 CONSOLIDATED

Q. Please state your name and business address.

A. Albert E. Harms, 1844 Ferry Road, Naperville, Illinois 60563-9600.

Q. By whom are you employed?

A. Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or "Company").

Q. What position do you hold with Nicor Gas?

A. I am Manager Rate Research.

Q. How long have you been employed by Nicor Gas?

A. Twenty-eight years.

Q. Please summarize your educational background and work experience.

A. I hold a degree of Bachelor of Arts, majoring in Mathematics, from Taylor University in Indiana, and a Master of Business Administration degree from Northern Illinois University. I began my employment with Nicor Gas in 1972 as a rate analyst in the rate research section of the Rate Department. Since that time, I have held management positions in the Marketing, Customer Service, Credit, and Finance Departments of Nicor Gas, and in the Rate Administration section of the Rate Department. In May 1988, I assumed my present position as Manager Rate Research.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to present the Company's position that its voluntary *Customer Select* program benefits customers and that these benefits should now be made generally available to all of Nicor Gas' customers. I will discuss the genesis of the Company's *Customer Select* pilot program as currently provided for in Rider 15, *Customer Select* Pilot Program and Rider 16, Supplier Aggregation Service, and the Company's proposed changes to these tariffs that would enable the Company to provide open access transportation service for all customers. The tariff sheets for each of the three years of the pilot program and the proposed tariff sheets that would make the program Company-wide are attached hereto as Exhibits AEH-1 through AEH-4, respectively.

Additionally, I will discuss the cost of providing the proposed service to Suppliers and customers and the Company's proposed rates and rate design to recover costs from cost- causers.

I. The *Customer Select* Pilot Program

Q. Please describe *Customer Select* and how it works.

A. The program was designed to offer an additional voluntary transportation service option to small commercial and industrial customers and eventually be expanded to residential customers. It offers marketers and brokers, which I will refer to as Suppliers, the opportunity to manage a large number of smaller customers as a large group. The Company has offered the service at a low administrative cost which improves the economics in a way that enables smaller customers to benefit from the program.

Q. When did *Customer Select* start?

A. The Commission originally approved the *Customer Select* pilot program in 1997 to be effective for three years. The first customer open enrollment period was from January through March, 1998. Customers began receiving service under the provisions of *Customer Select* with the first bill issued after May 1, 1998.

Q. Why did the Company propose the *Customer Select* Pilot Program?

A. At least since 1986, when open-access transportation service became available to all of the Company's commercial and industrial customers, Nicor Gas has been a strong advocate of open access. Over the ten years from 1987 through 1996, Nicor Gas continually modified its transportation tariffs to make economical transportation services available to more and more customers. With implementation of the Company's latest rate structure in April, 1996, about 20,000 commercial and industrial customers were transporting their own gas supplies and about half of the Company's annual throughput was for transportation services.

To enable customers to choose Suppliers and make economical transportation service available to even more customers, and with the encouragement of the Commission, Nicor Gas proposed the *Customer Select* Pilot Program.

Q. What benefits do small customers receive from *Customer Select*?

A. First and foremost are benefits related to the opportunity that choosing a Supplier affords a customer. Even if a customer decides not to participate directly in *Customer Select*, just having the knowledge and ability to change from utility service to a Supplier or among Suppliers adds to competition in the gas industry. Competition, in turn, brings different services and the potential of lower costs to each customer.

Suppliers are not regulated and thus can provide different services than a utility. Consequently, a participating customer can shop for a Supplier that offers a service that it perceives to be valuable. Suppliers can offer customers different pricing options, billing options, various payment terms, incentives and packaging with other desired goods and services. These are all benefits that can accrue to customers that choose an alternative Supplier, in addition to potentially lowering gas supply costs.

Q. What benefits do Suppliers receive from *Customer Select*?

A. *Customer Select* is designed to enable Suppliers to economically serve small customers. By allowing a Supplier to group a large number of customers and make only one supply nomination for the whole group, the Supplier should be able to obtain better gas commodity prices and generate administrative economies of scale that come with efficient handling of large groups of customers. In addition, the program stresses a paperless, electronic format that provides low acquisition costs for each customer.

Q. Have customers benefited from participating in *Customer Select*?

A. Yes. While one cannot make the blanket statement that <u>every</u> customer who has participated received lower prices or better services, Nicor Gas' surveys show that many of the approximately 114,000 participants believe that they have benefited from the pilot program. Specifically, the Company contracted with Opinion Dynamics Corporation to survey both participants and non-participants during the second year of the pilot program. The survey results show that approximately 90 percent of participating residential customers were satisfied with the *Customer Select* program and that about 90 percent of them would participate again. The survey also found that about 60 percent of all residential eligible non-participants say they are better off having a choice of natural gas Suppliers. The Company believes that this is strong evidence that *Customer Select* has provided benefits to all customers, both participants and non-participants.

As in any competitive industry, not all customers will save money all the time under *Customer Select*. However, as the survey shows, customers that signed fixed price contracts in the past that continue in effect today are reaping the benefit of below market gas commodity prices. On this point, the survey shows that customers were offered fixed prices ranging from 26 cents per therm to 32 cents per therm. By way of contrast, the Company's gas supply charge, which is based on current market price, has been above 26 cents per therm since June, 1999 and has been at or above 32 cents per therm since September, 1999 and is 65 cents per therm for November, 2000.

Additionally, the fact that any customer choosing an alternative Supplier, if dissatisfied in any way, can return to sales service provided by Nicor Gas, gives an overriding sense of security for all eligible customers.

Q. Briefly, why is Nicor Gas proposing to change *Customer Select*?

A. The Company believes that after three years of experience with the pilot program that it can efficiently expand the program and its benefits to all customers. The proposed *Customer Select* program would result in almost 2 million customers having choice between utility sales service and purchasing gas supply from an alternative gas Supplier. As proposed, customers could enter and leave the program at their discretion. Additionally, the proposed program would give Suppliers a significantly greater amount of flexibility and discretion in managing their gas supply requirements than is available under the current tariffs. However, while Suppliers would generally have more flexibility under the proposed terms and conditions of the program, the Company is proposing that on certain "supply sensitive" days, the Company would be able to issue Operational Flow Orders to make sure that supplies are delivered into the distribution system where needed. Finally, the proposed program changes are designed to allocate costs and supply related obligations such that customers remaining on utility sales service would not subsidize customers opting for service under *Customer Select.* Based on the success of the pilot program, the proposed changes are designed on the assumption that a significant number of sales customers would elect to purchase their gas supplies from alternative Suppliers.

II. Rider 15, *Customer Select* Pilot Program

Q. Please describe Rider 15, *Customer Select* Pilot Program.

A. Rider 15, *Customer Select* Pilot Program, is applicable to Nicor Gas' customers and sets forth the provisions of the program that are directly applied to a customer. This rider enables an individual customer to transport gas. The program was modified and enhanced each succeeding year.

Q. Over the three years of the program, how have the eligibility requirements of Rider 15, *Customer Select* Pilot Program, changed?

A. In the first year of the program, the Company limited enrollment to the first 20,000 commercial or industrial customers, not already transporting their own gas, who signed up for *Customer Select*. About 150,000 customers were eligible to participate under this criteria. While the enrollment period extended for twelve weeks, the 20,000 customer limit was reached in only six weeks.

For the second year of *Customer Select,* the limit on the number of participating commercial and industrial customers was increased from 20,000 to 60,000 for those not already transporting their own supplies. Customers transporting their own gas supplies under the provisions of Rider 25, Firm Transportation Service and having a maximum daily contract quantity of 100 therms or less, were allowed to switch to *Customer Select.* About 5,000 customers were in this group. The Company also opened the program to about 80,000 residential customers in selected communities. There was no limit on the number of residential customers from these communities that could sign up for *Customer Select.* Approximately 62,000 customers enrolled in the second year of the pilot program.

During the third year, all commercial and industrial customers were eligible to participate in the program even if they were already transporting gas under other Nicor Gas tariffs. For residential customers, the number of communities that were eligible for the program was increased so that over 280,000 residential customers became eligible. There were no sign-up limits on the number of eligible customers. By the end of the third year enrollment period, over 120,000 customers were enrolled in *Customer Select*.

Q. Please describe the other provisions of Rider 15, *Customer Select* Pilot Program.

A. A number of the tariff provisions have remained unchanged throughout the pilot program. For example, charges for *Customer Select* are the same as the customer's normal rate without gas supply costs. In the event a Supplier is unable to pay its charges to Nicor Gas, these charges are rebilled to the customer based on the service received at each customer location.

Rider 15 also provides that Nicor Gas will continue to bill the customer directly for its services.

As a unique feature of Rider 15, Suppliers can sign up customers electronically with Nicor Gas through electronic data transmission. The Supplier does have to warrant that it has an agreement with the customer. Nicor Gas is responsible for notifying the customer that it is enrolled in *Customer Select* and specifying who the customer has selected as a Supplier.

If a customer desires to terminate service under *Customer Select*, the tariff provides that the customer will notify the Company. A Supplier can return a customer to Nicor Gas sales service as of May 1 of each year, provided the Supplier notifies the Company and the customer by March 1. Additionally, if a customer is at least 60 days in arrears with the Supplier, the Supplier, with 15 day's notice, can return the customer to Nicor Gas sales service.

Finally, the tariff provides that *Customer Select* will end on April 30, 2001 unless otherwise requested by the Company and authorized by the Commission.

Q. Please describe the changes the Company proposes to make to Rider 15.

A. First, the Company originally proposed to make Rider 15 generally available to all customers as of March 1, 2001. However, the effective date will be based on the timing and outcome of this case. Additionally, there would be no fixed enrollment period but rather open enrollment throughout the year. Customers would be able to change Suppliers once each billing cycle. Customers would continue on the program when they move to a new location within the Company's service territory. Of course, the customer would continue to be subject to the terms of the contract with its Supplier.

Other proposed revisions to Rider 15 include: 1) limiting a customer's exposure to gas related costs only if a Supplier fails to pay Nicor Gas; 2) requiring the Supplier, in addition to the Company, to notify the customer of the customer's participation in the program; 3) allowing the customer to terminate service by contacting either the Company or its Supplier; and, 4) sharing monies received by the Company from third parties, such as from the Low Income Home Energy Assistance Program, with the Supplier for the customer's benefit.

Q. Why is the Company proposing these changes?

A. The Company is proposing these changes for several reasons. First, customer choice of Supplier is best supported by allowing customers to enter and leave the program at any time of the year. Thus, the fixed enrollment period should be eliminated.

Second, with the pilot program available only for a fixed enrollment period with limited geographic locations, when a participating customer moved to a new location, it terminated from the program. With expansion of program availability, and assuming that both the customer and Supplier want *Customer Select* service to continue at the new location, the Company is proposing the continuation of the program at the customer's new location, provided that it is within the Company's service territory.

Third, in the event a Supplier does not make full payment to Nicor Gas for Company provided services, the Company proposes to limit the customer's exposure to gas related costs originally billed to the Supplier. The gas costs include the cost of commodity not delivered by the Supplier as required by the Company and gas supply charges as defined in Rider 16 which are billed to the Supplier. Since the customer receives the benefits of the Company maintaining and balancing its system and using the commodity itself, it is logical that it be assessed these costs if the Supplier does not pay for them or they are not covered by the Supplier's deposit. This proposal narrows the scope of the liability of customers versus the current provision which would require customers to pay all charges billed to the Supplier.

Fourth, the Company is proposing that both the Company and Supplier notify the customer when it is enrolled or terminated from the program to ensure no misunderstandings arise.

Fifth, the current tariff provides that a customer need only contact the Company to terminate service. The Company understands that suppliers would like to be able to accept customer "drops". Since the contract is between the customer and Supplier, Suppliers would like the opportunity to "save the sale" and remind the customer of any contractual penalties resulting from early contract termination. The Supplier would notify the Company that the customer wishes to drop the program. However, a customer may notify the Company directly if so desired.

Finally, in response to customer and Supplier comments, the Company proposes to share third party funds, such as those from the Low Income Home Energy Assistance Program ("LIHEAP"), with the Supplier for payment of the customer's natural gas commodity costs. Money received from an agency would first be applied to any Company arrears and then to any arrears of the Supplier, assuming that Nicor Gas is informed of such arrearage. Of course, to make this possible, Nicor Gas would need approval from the agencies administering the funds to begin sharing the proceeds.

III. Rider 16, Supplier Aggregation Service

Q. Please describe Rider 16, Supplier Aggregation Service.

A. Rider 16, Supplier Aggregation Service, sets forth the requirements for Suppliers that wish to serve Rider 15 customers. It specifies the terms and conditions that Suppliers must abide by in order to participate in the program.

Q. Has the Company proposed changes to Rider 16 over the three years of the pilot program?

A. Yes. The changes have impacted both program administration and operational functions. I will discuss the administrative changes and Mr. Gilmore will cover the operational changes in his direct testimony.

Q. How have the availability provisions of Rider 16, Supplier Aggregation Service changed over time?

A. The availability section of Rider 16 has changed over time to match that of Rider 15 with the exception that in the first year the maximum number of customers a single Supplier could enroll in the program was 10,000 customers. This restriction was removed in the second year of the program.

Q. Please describe the Rider 16 tariff provisions related to the Company and Supplier Contract.

A. As previously mentioned, a potential Supplier enters into a Supplier Aggregation Agreement which specifies the obligations of the Supplier under the pilot program. Additionally, to provide adequate assurance of payment, the Company originally required a cash deposit, letter of credit or parental guaranty in an amount equal to the estimated maximum daily use of customers served by the Supplier, times $4.00. The amount of security payment has been reduced to $2.00 times the estimated maximum daily use. This change helped to reduce the acquisition cost of Suppliers for obtaining new customers. The Company proposes to maintain this provision with the $2.00 charge.

The Supplier must also provide proof of firm supply contracts and firm transportation service on interstate pipelines equal to 28 percent of the estimated maximum daily use of the Supplier's customers, from November 1 through April 30. If the Supplier does not provide such proof, in the form of an affidavit, the Company charges the Supplier the Company's Non-Commodity Gas Cost for each therm of use by the Supplier's customers for each winter billing period. The Company proposes that the Supplier furnish copies of its firm service contracts as proof that the Supplier has complied with this requirement.

Q. Why did the Company include a Standards of Conduct provision in Rider 16?

A. The basic reason is that the Commission has no direct jurisdiction over Suppliers. This means that, without such a provision, the Company and the Commission would have little ability to protect customers against improper marketing and selling practices of Suppliers. As the Commission is aware, the General Assembly has given the Commission oversight authority over Alternative Retail Electric Suppliers (ARES) for the electric industry, but no such legislation covers gas supply marketers. By including Standards of Conduct in the provisions of *Customer Select,* an aggrieved customer can complain to the Commission if Nicor Gas does not adequately correct a Supplier that fails to follow the tariffed Standards of Conduct.

During the pilot phase of the program, the Company added one Standard of Conduct provision to the initial list that requires Suppliers to include certain information in voice recorded customer contracts. The Company has accepted voice recorded contracts as a means of lowering Suppliers' customer acquisition costs, and this additional provision lists the minimum information that must be recorded. The Company believes that including this minimum level of information reduces customer complaints and speeds complaint resolution.

The Company proposes two changes to the Standards of Conduct section. First, the Company proposes to add an additional provision requiring the Supplier to notify current or past customers of billing adjustments resulting from cancels and rebills of the customer's account. Nicor Gas has found that many times the customer is unaware that when the Company cancels a previous bill and rebills an account, the Supplier should make a corresponding adjustment to the customer's bill, if the amount of gas use is different than originally billed to the customer. It is the intent of the provision to make sure that accurate Supplier billing takes place for the benefit of the customer. This proposal should help reduce customer inquiries concerning their bills and ensure that any adjustment made to a customer's bill is also reflected in the Supplier's bill to the customer.

A second proposed change would require the Supplier to mail a letter to each customer that is added to or deleted from its group of customers, explaining why such action was taken. This added communication should help to keep the customer informed, thus reducing customer questions as well as the Company's and Supplier's administrative workload.

Q. Does the Company contend that the Standards of Conduct give the Commission direct jurisdiction over Suppliers?

A. No. However, the Company believes that if the Commission determines that a

Supplier had violated the Standards of Conduct it can direct Nicor Gas to drop the Supplier from the *Customer Select* program.

Q. Please describe the charges Suppliers are subject to under Rider 16.

A. To initiate the process of participating in *Customer Select*, a potential Supplier pays a one-time application charge of $2,000. This charge is assessed when a Supplier applies to participate in the program. It is intended to recover costs of financial and credit reviews, setting up and testing the electronic passing of files, and programming necessary to establish a Supplier.

Monthly charges incurred by the Supplier include a $200 per group charge. Since each Supplier has decided to combine all of its customers into one group, it incurs one $200 charge each month. This charge is intended to recover costs incurred to serve a group, such as calculating, reviewing and issuing the group bill, responding to Supplier billing questions, generating and processing daily and forecasting monthly nominations and processing payments.

A $10.00 charge is applied whenever a group adds a customer that is switching from another Supplier's group. Sales customers moving to *Customer Select* do not incur this charge. This charge is the same as that provided for in other transportation rates and is intended to recover costs associated with customer calls concerning the change, dealing with disputes between Suppliers and/or customer and Supplier, and processing the change request.

The cost basis for these three charges are shown on Exhibit AEH-5.

In the first year of the pilot program, the Supplier was charged an Account Charge of $3.00 per customer account to cover administrative costs of the program. This amount was reduced to $2.00 per account in the second year and reduced further to $1.00 per account in the third year. The charge is intended to recover all remaining costs associated with the implementation and administration of *Customer Select* not recovered by other charges.

The Company is not proposing any changes to these charges.

There is a month-end cash out provision in Rider 16 which is based on the difference between the amount of gas delivered to Nicor Gas and the amount of gas used by the group, net of storage activity. This provision was changed in the third year so that no cash out is applicable if the amount of imbalance, either positive or negative, is less than two times the estimated maximum daily use of the group. Any difference to be carried forward to a future month is reflected in the Supplier's required daily deliveries. Any over- or underage above the two times the estimated maximum daily use of the group is priced at 100 percent of the Monthly Market Price, defined to be the "Daily Midpoint" for each day identified in <u>Gas Daily</u>.

The Company proposes to widen the month-end delivery tolerance the Supplier must be within to avoid a cash-out from two to three times the Group's estimated maximum daily contract quantity, thus reducing the quantity of gas supplies which will be bought or sold. The Company believes that this change is appropriate to accommodate Suppliers adding customers year-round, while preventing potential subsidies between sales customers and *Customer Select* participants.

Certain gas supply costs incurred by the Company to operate its system are also charged to Suppliers. This includes the Transition Surcharge (TS), Storage Service Cost Recovery Charge (SSCRC) and the Aggregator Balancing Service Charge (ABSC) assessed on a per therm of use basis. The TS and SSCRC are "pre-*Customer Select*" charges in the company's gas cost and are assessed in the same manner as they are to sales customers. The ABSC is a non-commodity related charge created to be applied only to *Customer Select* customers, for firm pipeline costs that excludes firm transportation costs for which the Supplier is directly responsible. However, in the event a Supplier does not obtain the required firm transportation service and firm supply by November 1, then a Firm Delivery Charge equal to the Non-Commodity Gas Cost would be assessed based on the Supplier group's monthly use for the period November through March. These charges are credited to the gas supply costs. There is no change proposed in the application of these charges, but the Company does propose to include additional Company costs in the ABSC, as explained by Mr. Gilmore.

Finally, a Supplier could be charged for not delivering the correct Required Daily Deliveries. The charge for Non-Performance varies depending on whether it occurs on a Critical or non-Critical day. For each therm of under delivery of supply on a Critical Day, the Supplier would be charged $6.00 per therm plus the higher of the Company's Gas Supply Cost or the Market Price. If an overdelivery occurred on a Critical Day, the Company would purchase the excess gas at 100 percent of the low price of gas as reported by Gas Daily. On a non-Critical Day, an overdelivery would result in the Company purchasing the excess at 90 percent of the reported low market price. For each therm of underdelivery on a non-Critical Day, the Company would sell the gas to the Supplier at 110 percent of the reported high market price. There is no change proposed in this provision.

Q. Does the Company propose any new charges to be applied to Suppliers?

A. Yes. The Company is proposing two new charges related to the Supplier's delivery of gas into the system. First, the Company is proposing an Operational Flow Order Non-Performance Charge, which would be applied only during times the Company has called an OFO. In the event a Supplier does not comply with an OFO, the Company proposes to either sell gas to the Supplier or purchase gas from the Supplier based on a market price. The Company would either buy from or sell gas to the Supplier depending on the position the Supplier is in relative to the OFO requirements.

Second, the Company proposes a Month End Required Delivery Non-Performance Charge. While the Company is proposing more flexibility in daily Supplier delivery requirements, the Supplier still needs to be within a reasonable range of deliveries by the end of the month. Thus, the Company is proposing to charge the Supplier for each therm outside the acceptable month-end delivery range.

Q. How did Nicor Gas determine the changes it proposes to Riders 15 and 16?

A. Nicor Gas met with consumer representatives, held several meetings with interested Suppliers and with the Commission Staff to discuss changes to the current *Customer Select* Pilot Program. The proposed tariffs incorporate many, but not all, of the suggestions made by these interested parties.

Q. Are there additional changes the Company proposes to make to tariff provisions other than Rider 15 and Rider 16?

A. In addition to the proposed changes to Riders 15 and 16, the Company proposes a change to its Terms and Conditions to explain the calculation of the Maximum Daily Contract Quantity for a Group and an expansion to the Rider 6, Gas Supply Cost description of Factor ABSC to include gas supply costs the Company incurs to rectify an Operational Flow Order (OFO) situation. These changes are desirable to more fully explain the program and to assure adequate and equitable recovery of costs. The proposed tariffs equitably allocate costs and services while treating all classes of customers fairly. As such, Nicor Gas believes that the proposed changes to Riders 6, 15, 16 and its Terms and Conditions are just, reasonable and in the public interest.

IV. Cost of Service for *Customer Select.*

Q. What costs has the Company incurred in implementing and operating *Customer Select* for the first three years of the program?

A. As shown on Exhibit AEH-6, the Company estimates that it has incurred approximately $3.1 million of expenses over the first three years of the pilot program which would be the years 1998, 1999 and 2000.

Q. What types of costs have been incurred by the Company?

A. Nicor Gas has incurred numerous types of costs. First, the Company has and still is developing the information technology and computer programs to handle customer enrollment, termination, customer consolidation by Supplier and billing to the Supplier. Second, the Company incurred Supplier and customer education expenses including but not limited to Supplier meetings, communication collateral for eligible customers, and media announcements. Third, the Company's Customer Inquiry Center handled thousands of additional phone calls from customers wanting information on the program. This required additional staffing and training of customer service representatives, correspondence activity and overall administration. Fourth, incremental costs were imposed on the Company's billing services to segregate these customers from other customer classes, develop new billing procedures and to insure proper billing of these customers. The above costs are over and above the costs of an implementation team and necessary legal fees that go along with starting up any pilot program from scratch. Additionally, these costs do not include investments incurred for new equipment purchased and software by the Company or a return on that capital cost.

Q. How much revenue has the Company received under the tariffs of *Customer Select* to offset the costs of the pilot program?

A. As shown on Exhibit AEH-7, the Company has received approximately $3.2 million from Suppliers and customers participating in the pilot program. Thus, the Company believes that for the first three years of *Customer Select*, the added expenses incurred by the Company have been offset by an almost equal amount of revenue. However, the Company has made capital investments of about $2.1 million, which has not been recovered.

Q. Will the proposed expansion of *Customer Select* impose additional costs on the Company?

A. Yes. The Company will incur considerably more implementation and maintenance costs for its proposed full fledged *Customer Select* program as shown on Exhibit AEH-6.

Q. What additional capital costs does the Company anticipate will be necessary to expand the program to all customers?

A. Additional information technology hardware and software will be needed as the program expands, as proposed by the Company, to all 2 million customers. Besides the purchase of hardware and software, such costs will include, but not be limited to, program development, project administration and management, quality assurance, system testing and workload administration.

Q. How much money does the Company expect to invest in these new capital projects?

A. The Company's current estimate is that about $6.7 million in incremental capital costs will be needed to expand *Customer Select*, as proposed by Nicor Gas.

Q. What additional expenses does Nicor Gas expect to incur during the start-up phase of expanding *Customer Select*?

A. The majority of expense will be directed toward educating all customers that they are eligible for the program. The Company plans on using various methods to provide its customer's with information on Customer Select, including direct mail, media announcements, and Company publications. The next largest expense is expected to be for the additional workload placed on the Company's Customer Inquiry Center to answer questions that many customers will likely have once all customers are eligible. The expansion of *Customer Select* will also place additional workload on the Community and Government Relations areas of the Company. Finally, additional legal and implementation team expenses will be incurred by Nicor Gas.

Q. What is the Company's estimate of the additional expenses needed to start-up *Customer Select* as a Company-wide program?

A. The Company estimates these incremental first year expenses to be approximately $3.7 million, in addition to the $6.7 million of capital investment.

Q. After the pilot program is expanded to be Company-wide, are there annual maintenance and operating expenses the Company will incur?

A. Yes. The Company will continue to incur expenses to keep the program up to date. The hardware and software will require maintenance each year. The Company will continue to have *Customer Select* related communications with customers annually. As the program expands to all customers, the Customer Inquiry Center will continually need to respond to customer inquiries. With greater participation will come more customer related issues that will in some cases require legal responses. Other areas of the Company that will experience additional annual expenses under the expanded program will be Community and Government Relations, Auditing, and Finance departments

Q. What is the Company's estimate of the annual costs it will incur to maintain and update the program?

A. Exhibit AEH-6 shows that the Company estimates incremental annual operating and maintenance expenses of $3.0 million.

Q. What will be the sources of revenue to offset the Company's incremental annual expenses and to provide a return on its capital investment?

A. As previously discussed, the tariffs for Rider 16 include four sources of revenue used to offset the costs of the program. First, new Suppliers would continue to pay the one-time sign-up charge of $2,000. Second, the Company proposes to keep the Monthly Administrative charge of $200 per Supplier group at the current level. Third, the Monthly Account charge would also remain at the current level of $1.00 per month per account. Finally, the Company proposes to continue the $10.00 per account switching charge for customers that switch between Suppliers. These costs are the same as charged in the third year of the pilot program and have not, in my opinion, dampened the success of *Customer Select*. The anticipated revenues from these charges are shown on Exhibit AEH-7.

Q. Does the Company believe that the proposed charges will generate enough revenue to offset incremental operating expenses and earn a return on capital investment?

A. It depends on how fast the program grows. For the first year or two, revenues may lag expenses until such time as enough customers have enrolled in the program. The Company's forecast of customers served under *Customer Select* is shown on Exhibit AEH-8. Assuming the program is opened to all customers, the Company anticipates that approximately 38 percent of commercial and industrial customers will participate. For residential customers, the rate of participation is expected to grow from 14 percent of total residential customers in the first year to 24 percent participation in three years. If customer growth matches the Company's forecast, cumulative revenues would not exceed cumulative expenses for over five years.

Based on the results of other voluntary open access programs for small customers, the Company feels its projections are ambitious. However, they are also reasonable, given the historical success of *Customer Select*.

I should note that, by proposing to maintain the current pricing structure and charges, the Company is accepting the risk that a slower participation growth rate will prolong the time until revenues and expense match.

Q. Does this conclude your direct testimony?

A. Yes.

Rider 6
Gas Supply Cost

(Continued from Sheet No. 58)

A monthly report, in a format designated by the Illinois Commerce Commission ("Commission"), postmarked by the 20th of the filing month, shall show determinations of the Gas Charges for the effective month.

Section B - Definitions

"Base period" shall mean the effective month or the remaining months in the reconciliation year which includes the effective month.

"Effective month" shall mean the month following the filing month, during which the Gas Charges will be in effect.

"Filing month" shall mean the month in which Gas Charges are determined and filed with the Commission.

"Gas used by the Company" shall include all gas used by the Company except gas utilized in the manufacture of gas through a reforming process, and shall include gas furnished to municipalities or other governmental authorities without reimbursement in compliance with franchise, ordinance or similar requirements.

"Reconciliation year" shall mean the calendar year for which actual gas costs and associated revenues are to be reconciled.

"System average cost of gas" shall mean the weighted average cost per therm of gas estimated to be purchased, withdrawn from storage, and manufactured during the base period or reconciliation year.

Section C - Cost Basis

The Gas Charges shall represent the Company's estimate of recoverable gas costs (as prescribed in Section D) to be incurred during the base period, with an adjustment to such costs through use of Adjustment Factors (as prescribed in Sections E, F, and G). Any Gas Charges established to recover commodity gas costs (separately or in conjunction with non-commodity gas costs) shall use an estimate of the recoverable costs to be incurred during the effective month. Any Gas Charges established to recover only non-commodity gas costs shall use an estimate of the recoverable costs to be incurred during the remaining months of the reconciliation year.

Section D - Recoverable Gas Costs

a) Costs recoverable through the Gas Charges shall include the following:

   1) costs of natural gas and any solid, liquid or gaseous hydrocarbons purchased for injection into the gas stream or purchased as a feedstock or fuel for the manufacture of gas, or delivered under exchange agreements;

(Continued on Sheet No. 60)

Rider 6
Gas Supply Cost

(Continued from Sheet No. 59)

2) costs for storage services purchased;

3) transportation costs related to such natural gas and any solid, liquid or gaseous hydrocarbons and any storage services; and

4) other out-of-pocket direct non-commodity costs, related to hydrocarbon procurement, transportation, supply management, or price management, net of any associated proceeds, and Federal Energy Regulatory Commission-approved charges required by pipeline suppliers to access supplies or services described in subsections (a)(1) through (3) of this Section.

b) Determinations of the Gas Charges shall exclude the estimated cost of gas to be used by the Company, based upon the system average cost of gas for the effective month.

c) The cost of gas estimated to be withdrawn from storage during the base period shall be included in the Gas Charges.

d) Recoverable gas costs shall be offset by the revenues derived from transactions at rates that are not subject to the Gas Charges if any of the associated costs are recoverable gas costs as prescribed by subsection (a) of this Section. This subsection shall not apply to transactions subject to rates contained in tariffs on file with the Commission, or in contracts entered into pursuant to such tariffs, unless otherwise specifically provided for in the tariff. Taking into account the level of additional recoverable gas costs that must be incurred to engage in a given transaction, the Company shall refrain from entering into any such transaction that would raise the Gas Charges.

e) Revenues from penalty charges or imbalance charges, which the Commission has previously approved to prevent unauthorized actions of customers, shall offset gas costs.

f) Revenues from "cash-out" schedules, which the Commission has previously approved for transportation customers' monthly imbalances, shall offset gas costs. Under such schedules, the Company can charge customers for gas used in excess of the amount contracted for, or can refund to Customers the avoided cost of gas not taken. Refunds by the Company pursuant to any such "cash-out" schedule shall be treated as gas costs recoverable under this Section.

Section E - Adjustments to Gas Costs

a) The Adjustment Factors (Factors A) shall be treated as additions to or offsets against gas costs. These Adjustment Factors shall include the total of the following items:

(Continued On Sheet No. 61)

Rider 6
Gas Supply Cost

(Continued From Sheet No. 60)

1) refunds, directly billed pipeline surcharges, unamortized balances of adjustments in effect as of the Company's implementation date, and other separately designated adjustments;

2) the cumulative difference between actual recoverable gas costs and purchased gas adjustment ("PGA") recoveries for months preceding the filing month; and

3) the unamortized portion of any Adjustment Factors included in prior determinations of the Gas Charges.

b) If the Company determines the need to amortize an Adjustment Factor over a period longer than the base period, this Adjustment Factor shall be amortized over a period not to exceed 12 months. The Company shall, in the monthly filing in which the Factor A is first amortized, include an amortization schedule showing the Adjustment Factor amount to be included in the base period. The associated carrying charge established by the Commission under 83 Ill. Adm. Code 280.70 (e)(1) and in effect when the Adjustment Factor is first amortized shall be applied to each month's unamortized balance and included within Factor A.

Section F - Determination of Gas Charges

a) Each month, the Company shall determine the Gas Charges to be placed into effect for services rendered or estimated to be rendered during the effective month.

b) The Gas Charges shall be determined in accordance with the following formula:

$$\text{Gas Charge} = (G \pm A \pm O) / T \times 100$$

Where:

Gas Charge	=	Each Gas Charge in cents per therm rounded to the nearest 0.01 cent; any fraction of 0.01 cents shall be dropped if less than 0.005 cents or, if 0.005 cents or more, shall be rounded up to the next full 0.01 cents.
G	=	The sum of the estimated recoverable gas costs associated with the base period for each Gas Charge, as prescribed in Section D.
A	=	An amount representing the total adjustments to gas costs, as prescribed in Section E. If the Company has elected to amortize the total adjustments to gas costs, Factor A shall include the amount applicable to the base period.

(Continued On Sheet No. 62)

Rider 6
Gas Supply Cost

(Continued From Sheet No. 61)

O = An amount representing the additional over- or under-recovery for a reconciliation year ordered by the Commission to be refunded or collected, including interest charged at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) from the end of the reconciliation year to the order date in the reconciliation proceeding. If the Commission determines it is necessary to amortize additional over- or under-recovery, additional interest shall be charged in the same manner as that prescribed in Section E (b).

T = The estimated applicable therms of gas associated with the service to be rendered during the base period.

Section G - Annual Reconciliation

a) In conjunction with a docketed reconciliation proceeding, the Company shall file with the Commission an annual reconciliation statement, which shall be certified by the Company's independent public accountants and verified by an officer of the Company. This statement shall show the difference between the following:

   1) the costs recoverable through the Gas Charges during the reconciliation year, as adjusted by Factor A and Factor O; and

   2) the revenues arising through the application of all the Gas Charges to applicable therms during the reconciliation year.

b) If, after hearing, the Commission finds that the Company has not shown all costs to be prudently incurred or has made errors in its reconciliation statement for such reconciliation year, the difference determined by the Commission shall be refunded or recovered, as appropriate, under the Ordered Reconciliation Factor (Factor O), along with any interest or other carrying charge authorized by the Commission.

Rider 15
Customer Select Pilot Program

Applicable to Rates 1, 4, 10 and 11

Availability.
Service under this rider is available on a three-year experimental basis to the first 20,000 Rate 4, General Service; Rate 10, Compressed Natural Gas; and Rate 11, Energy Service customers, not receiving Transportation Service under any other rate or rider on or after August 1, 1997, who enter into a contract with an approved Supplier as specified under Rider 16, Supplier Aggregation Service.

Customer participation in this pilot program, known as Customer Select, shall be on a first-come, first-served basis up to the participation limits stated above. Customer shall enter into an agency contract with a Supplier during an initial Open Enrollment period from January 1, 1998 through March 31, 1998. Service under this rider shall begin with the first bill with a beginning reading date on or after May 1, 1998.

The Company may, at its sole discretion, expand Customer Select to include additional participation by Rate 4, 10 and 11 Customers in the second and third years of the program. In the third year of Customer Select, the Company shall allow participation of up to 10,000 Rate 1, Residential Service Customers in a geographical area specified by the Company. Suppliers shall be notified by December 1 of the preceding year as to any expansion of the program.

Charges.
The rates for service hereunder shall be those of the Customer's companion rate, excluding Rider 6, Gas Supply Cost.

In the event full payment for services rendered to the Supplier, as provided under Rider 16, is not received from the Supplier, each Customer served by the Supplier shall be billed directly for the fees originally billed to the Supplier for such service received at each Customer's service location for the applicable billing period(s), to the extent that such charges are not recovered from the Supplier's deposit, letter of credit or parental guarantee.

Bill Issue Date.
The Company shall issue its bill for transportation service under this rider directly to the Customer on the Company's normal billing schedule.

Company/Supplier/Customer Contracts.
The Customer's Supplier shall warrant that it has obtained agreement with the Customer specifying the Supplier as the sole agent for the Customer under this pilot program. Thereafter, the Company shall notify each Customer of enrollment in the program and the Supplier serving the Customer. In the event that a Customer contracts with more than one Supplier during the initial Open Enrollment period, the Company will accept the first notification received from a Supplier. Customers shall be enrolled in the Pilot Program for the remaining term of the program or until they notify the Company to terminate their participation.

(Continued on Sheet No. 75.2)

Rider 15
Customer Select Pilot Program

(Continued From Sheet No. 75.1)

Termination of Service.
Customers may terminate their participation in the Customer Select Pilot Program at any time by notifying the Company and completing a Termination Form. Upon receipt of the Termination Form, the Company shall notify the Supplier of the Customer's intent to no longer participate in the program. Customers shall be terminated from the program effective with the next billing period. Customers may switch Suppliers effective with the May 1 annual anniversary date of the Customer Select Pilot Program, unless otherwise allowed by the Company during the term of the program. A Supplier may refuse to continue serving a Customer as of the May 1 annual anniversary date, subject to providing notice to the Customer and the Company on or before the preceding March 1. Upon 15 days notice, Customers that are 60 days or more in arrears for payment of services rendered by the Supplier, may be prospectively returned to NI-Gas sales service at the Supplier's request.

Pilot Program Termination.
The Customer Select Pilot Program shall terminate on April 30, 2001 unless otherwise requested by the Company and authorized by the Commission.

General.
Except as specified herein, all other provisions of the Customer's rate shall apply. The Schedule of which this rider is a part includes certain Terms and Conditions. Service hereunder is subject to those Terms and Conditions, including any changes authorized by the Commission subsequent to the initial effective date of this rider.

Rider 16
Supplier Aggregation Service

Applicable to Rider 15

Availability.
Service under this rider is available on a three-year experimental basis to any approved Supplier representing a group of Customer accounts being served under Rider 15, Customer Select Pilot Program. Each Supplier shall be initially limited to a total of 10,000 Customer accounts. Total first-year participation in the Rider 15, Customer Select Pilot Program is limited to 20,000 Customer accounts.

For the initial year of the pilot program, participation shall be limited to Customers enrolled and included on Suppliers' lists of participating Customers during an open enrollment period from January 1, 1998 through March 31, 1998. Service under this rider shall begin May 1, 1998.

Suppliers shall enter into Supply Aggregation Agreements with the Company to transport gas from an interconnection between the Company and a pipeline to a Customer and the following requirements shall also apply:

(a) the Supplier shall contract for transportation of direct purchases from the delivery point of the seller to an existing pipeline interconnection with the Company's facilities as approved by the Company, which interconnection, in the sole judgment of the Company, is capable of receiving the Supplier's gas without impairment of anticipated deliveries of any gas supplies to be purchased by the Company for general use; and

(b) the final pipeline transporter of such gas shall agree to provide daily delivery data for such gas to the Company; and

(c) satisfactory evidence of Supplier's contracts with seller(s) and intrastate or interstate transporters shall be provided to the Company; and

(d) all such arrangements shall have been approved by each regulatory agency having jurisdiction over such matters, to the satisfaction of the Company.

Charges.
There will be a one-time application charge of $2,000 per Supplier at the time of submitting a completed Supplier Aggregation Agreement.

Monthly charges for each Group shall be the sum of (a) through (h).

(a) <u>Group Charge</u>
$200.00 per month. A Supplier may form a Group with any number of Customers included.

(Continued On Sheet No. 75.4)

Rider 16
Supplier Aggregation Service

(Continued From Sheet No. 75.3)

(b) Account Charge
$3.00 per Customer account included in the Group as of the end of the month.

(c) Group Additions
$10.00 per each Customer account added to a Group during the second and third years of the program. There is no charge for adding a sales Customer to a Group if the Customer is taking service for the first time under Rider 15, Customer Select Pilot Program.

(d) Cash-Out Amount
The cash-out amount will be the difference between the Supplier's Required Daily Deliveries to the Company plus any storage activity and the Group's use for the month, multiplied by 100% of the Monthly Market Price. The Monthly Market Price shall be the "Daily Midpoint" for each day identified in Gas Daily, in the table entitled "Daily Price Survey" for deliveries to Chicago-LDCs, large end users, weighted by Company-planned purchases for each day of the month. For purposes of determining which issue of Gas Daily reports the range of prices of gas flowing on the day in the month, the date listed at the top of the column shall be the date applicable to the prices published in that column. Gas shall be priced using the closest date prior to the delivery date. For example, Friday's date would be used to price Saturday, Sunday and Monday gas volumes. In the event that Gas Daily is unavailable, then a reported Chicago citygate price of a similar publication, as determined in the Company's sole discretion, shall be used.

(e) Gas Supply Charge
The Gas Supply Charge shall be the sum of the following: (1) Transition Surcharge (TS); (2) Storage Service Cost Recovery Charge (SSCR); and (3) the Aggregator Balancing Service Charge (ABSC) multiplied by the Group's total use in the calendar month, each such component as determined in Rider 6, Gas Supply Cost.

(f) Firm Delivery Charge
In the event a Supplier does not obtain the required firm transportation service and firm supply service by November 1 for Customers participating in Customer Select, the Firm Delivery Charge shall be the Non-Commodity Gas Cost (NCGC), as determined in Rider 6, Gas Supply Cost, multiplied by the Group's use in the calendar months November 1 through March 31. The Firm Delivery Charge shall be charged in place of the ABSC as specified in item (e) above.

(g) Critical Day Non-Performance Charge
For each therm of underdelivery of Required Daily Deliveries on a Critical Day, the Company will sell gas to the Group and the charge shall be the sum of $6.00 per therm plus the higher of: (a) the Rider 6 Gas Supply Cost; or (b) the Market Price as defined in the Terms and Conditions applicable to this rider.

(Continued on Sheet No. 75.5)

Rider 16
Supplier Aggregation Service

(Continued From Sheet No. 75.4)

For each therm of overdelivery of Required Daily Deliveries on a Critical Day, the Company will purchase gas from the Group and the payment shall be 100% of the low price of gas as reported for Chicago citygate deliveries by Gas Daily for each day of Non-Performance. In the event that Gas Daily is unavailable, then a reported Chicago citygate price of another similar publication, as determined in the Company's sole discretion, shall be used.

(h) Non-Critical Day Non-Performance Charge
For each therm of overdelivery of Required Daily Deliveries on a Non-Critical Day, the Company will purchase gas from the Group and the payment shall be 90% of the low price of gas as reported for Chicago citygate deliveries by Gas Daily for each day of Non-Performance. For each therm of underdelivery of Required Daily Deliveries on a Non-Critical Day, the Company will sell gas to the Group and the charge shall be 110% of the high price of gas as reported for Chicago citygate deliveries by Gas Daily for each day of Non-Performance. In the event that Gas Daily is unavailable, then a reported Chicago citygate price of another similar publication, as determined in the Company's sole discretion, shall be used.

Revenues and costs arising from items (d), (e), (f), (g) and (h) shall be included in Rider 6, Gas Supply Cost.

In the event full payment for services rendered is not received from the Supplier, each Customer shall be billed directly for the fees originally billed to the Supplier for such service received at each Customer's service location for the applicable billing period(s), to the extent that such charges are not recovered under the Supplier's deposit, letter of credit or parental guarantee.

Required Daily Deliveries.
Required Daily Deliveries shall be the amount of gas a Supplier is required by the Company to deliver to the Company's citygate each day. Before the first of each month, the Company shall provide the Supplier with a schedule of daily gas deliveries for each Group. Such amounts shall be determined by the Company based on the individual member account's estimating factors for base use and heat use, assuming normal weather, and shall include an adjustment for the applicable unaccounted-for gas percentage. The schedule shall also reflect the Company's storage injection and withdrawal requirements. During the calendar month, the Company shall, on a daily basis, notify each Supplier by 8:30 A.M. the business day before each gas day of the Required Daily Deliveries for the gas day and an estimate of the Required Daily Deliveries for the next four days. Supplier will make all nominations to the Company electronically.

Failure of the Supplier to deliver the Required Daily Deliveries will result in a Non-Performance Charge, as specified above. The Company reserves the right to refuse to accept gas quantities in excess of the Required Daily Deliveries.

(Continued on Sheet No. 75.6)

Filed with the Illinois Commerce Commission on August 27, 1997
Items in which there are changes are preceded
by an asterisk (*)

Effective October 11, 1997
Issued by - Kathleen L. Halloran
Senior Vice President
Post Office Box 190
Aurora, Illinois 60507

Rider 16
Supplier Aggregation Service

(Continued from Sheet No. 75.5)

Storage.
The amount of gas to be injected or withdrawn from storage shall be determined by the Company and included in the determination of Required Daily Deliveries. Such amounts shall be determined, in the Company's sole discretion, consistent with the Company's storage activity plan and the estimated requirements of the participating Customers as determined by the Company.

Bill Issue Date.
A calendar month-end bill shall be issued to the Supplier showing the amount of gas received, storage activity and amount delivered to Group members. The amount of gas delivered to Group members shall be determined by the metered use of Group members adjusted by estimated use, based on base use and heat use factors, for the unmetered periods of the month.

Month-End Cash Out.
At the end of each month, the Company shall compare the total amount of Required Daily Deliveries for the Group adjusted for unaccounted-for gas, to the amount delivered to Customers and injected or withdrawn from storage. Any over- or underage shall be cashed out, (i.e., purchased from or sold to the Group) at the Monthly Market Price as defined above and shall appear as either a charge (underage) or a credit (overage) on the Supplier's bill.

Company and Supplier Contract.
Upon payment of the Application Charge, the Company and Supplier shall enter into a Supplier Aggregation Agreement, in a form specified by the Company, by November 1 which shall specify the obligations of the Supplier under Riders 15 and 16. The Company shall evaluate the capabilities of the Supplier. As of May 1, 1998 and each subsequent May 1, the Supplier shall provide adequate assurances of payment to the Company in the form of a cash deposit, letter of credit or parental guarantee, at the Company's discretion, in an amount equal to the estimated maximum daily use, in therms, of Customers served by the Supplier, multiplied by $4.00. Such amount shall be determined annually based on the Customers served by the Supplier.

The Supplier shall annually provide proof of firm supply contracts and firm interstate pipeline capacity to the Company's citygate at the primary delivery point, sufficient to provide a minimum of 28% of the Group's maximum daily use for the period November 1 through April 30. The Company shall notify each Supplier of any future change in the percentage of maximum daily use of required firm supply and firm pipeline capacity to be held by the Supplier. Such proof shall be by affidavit, and the Company reserves the right to review such contracts to the extent necessary to prove deliverability. The affidavit shall also state that such firm transportation is held for the purpose of complying with the provisions of this rider. In the event the Supplier does not hold the required firm supply and transportation contracts by November 1 of each year of the program, the Company shall charge the Supplier the Company's Non-Commodity Gas Cost (NCGC), in place of the ABSC, as filed from time to time as part of Rider 6, Gas Supply Cost, times the Supplier's Customers' use for each billing period from November 1 through March 31. Also, that Supplier will be removed from the remainder of the pilot program effective May 1.

(Continued on Sheet No. 75.7)